

Sonoma County Sanitation Districts
Occidental
Russian River
Sonoma Valley
South Park

Basic Financial Statements

Year Ended June 30, 2005

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Independent Auditors' Report

County of Sonoma
Sonoma County Sanitation Districts
Santa Rosa, California

We have audited the accompanying basic financial statements of the **Sonoma County Sanitation Districts** (including Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2005, which collectively comprise the **Districts'** basic financial statements as listed in this table of contents. These basic financial statements are the responsibility of the **Districts'** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

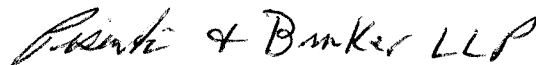
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the **Districts** as of June 30, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2005, on our consideration of the **Districts'** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 2 – 11 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the **Sonoma County Sanitation Districts**. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the **Districts**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Santa Rosa, California
September 12, 2005

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Management's Discussion and Analysis

As management of the Sonoma County Sanitation Districts (the Districts), we offer readers of the Districts' financial statements this narrative overview and analysis of the financial activities of the Districts for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Districts' financial statements (pages 12 - 16) and the accompanying notes to the financial statements (pages 17 - 40).

Reporting Entity

The Sonoma County Sanitation Districts are comprised of four (4) districts; Occidental, Russian River, Sonoma Valley, and South Park. The Districts are managed by the Sonoma County Water Agency which provides administration, engineering, operational and maintenance services. The Districts are governed by a Board of Directors, which is the County of Sonoma Board of Supervisors, with the exception of Sonoma Valley, which is governed by a three-member board. The Districts are considered an integral part of the County of Sonoma's reporting entity, resulting in the Districts' financial statements being included in the County's annual financial statements. Effective July 1, 2004 the Forestville County Sanitation District (CSD), previously included in the Sonoma County Sanitation Districts' reporting group, was dissolved.

Please refer to the reporting entity definition within the notes to the financial statements for additional detail.

Financial Highlights

Net Assets

The assets of the Districts exceeded their liabilities at the close of the most recent fiscal year by \$90,341,705 (net assets). Of this amount, \$21,188,662 (unrestricted net assets) may be used to meet the Districts' ongoing obligations to citizens and creditors.

Revenues

The Districts recognized total revenues of \$16,055,748 during fiscal year 2004/05. Of this amount, \$13,624,375 consists of charges for services (operating revenues), and \$2,431,373 of non-operating revenues consisting of investment earnings, property taxes, connection fees, intergovernmental, conservation program revenues, and capital grants.

Expenditures

The Districts incurred expenses totaling \$16,701,630 during fiscal year 2004/05. Of this amount \$12,052,993 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. The non-operating expenses total \$4,648,637 which is comprised of a transfer to process the dissolution of Forestville CSD (\$3,862,396) along with interest expense related to debt obligation, loss on the disposal of fixed assets, and conservation program expenses.

Increase/(Decrease) in Net Assets

The Districts recorded operating income of \$1,571,382 for fiscal year 2004/05. Two of the districts, Occidental (\$131,588), and Russian River (\$67,435) reported operating losses, while Sonoma Valley (\$855,311) and South Park (\$915,094) reported operating gains. The Districts recognized an overall decrease in net assets of \$645,882 due primarily to the dissolution of Forestville CSD.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Districts' financial statements. The Districts' financial statements are comprised of three components: 1) Management's discussion and analysis, 2) combined financial statements, and 3) notes to the financial statements. This report also contains other supplementary information consisting of statements by the District in addition to the basic financial statements themselves.

Management's discussion and analysis

The Management's discussion and analysis is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some key data presented in the financial statements.

Financial Statements

The Districts are engaged only in business-type activities. The Districts account for their financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 17 - 40.

The supplementary information statements by District referred to earlier are presented immediately following the notes to the financial statements in the supplementary information section of this report. These statements can be found on pages 41 - 49.

Financial Analysis

Net assets may serve over time as a useful indicator of a Districts' financial position. In the case of the Districts, assets exceeded liabilities by \$90,341,705 at the close of the most recent fiscal year compared to net assets of \$90,987,587 at June 30, 2004.

The largest portion of the Districts' net assets (71.56% for 2005 compared to 74.58% for 2004) reflects their investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Districts use these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Districts' investment in their capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Sanitation Districts

Management's Discussion and Analysis

Year Ended June 30, 2005

Financial Analysis (continued)

Net Assets

	June 30, 2004	June 30, 2005	Percentage Change
Current and other assets	\$ 25,482,992	\$ 26,982,150	5.9 %
Capital assets	97,930,277	92,617,701	(5.4) %
Total Assets	123,413,269	119,599,851	(3.1) %
Current liabilities	4,020,699	2,015,351	(49.9) %
Non-current liabilities	28,404,983	27,242,795	(4.1) %
Total Liabilities	32,425,682	29,258,146	(9.8) %
Invested in capital assets net of related debt	67,855,612	64,644,255	(4.7) %
Restricted for conservation program	1,816,355	2,000,814	10.2 %
Restricted for debt service	2,158,257	1,696,683	(21.4) %
Restricted for capital projects	797,132	811,331	1.8 %
Unrestricted	18,360,231	21,188,622	15.4 %
Total Net Assets	\$ 90,987,587	\$ 90,341,705	(0.7) %

A portion of the Districts' net assets \$4,508,828 (5.0% for 2005) and \$4,771,744 (5.2% for 2004) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$21,188,622 for 2005 and \$18,360,231 for 2004 may be used to meet the Districts' ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Districts are able to report positive balances in all categories of net assets, both for the Districts as a whole, as well as for each separate district.

Changes in Net Assets

	June 30, 2004	June 30, 2005	Percentage Change
Revenues:			
Program revenues			
Charges for services	\$ 13,135,105	\$ 13,624,375	3.7 %
General revenues			
Property taxes	150,106	173,608	15.6 %
Investment earnings	342,668	628,519	83.4 %
Intergovernmental	457,718	78,040	(83.0) %
Conservation program revenues	396,810	228,870	(42.3) %
Contributions - connection fees	2,047,090	1,201,426	(41.3) %
Capital grants	1,239,380	120,910	(90.2) %
Other	651,394	-	N/A
Total Revenues	18,420,271	16,055,748	(12.8) %

Sonoma County Sanitation Districts

Management's Discussion and Analysis

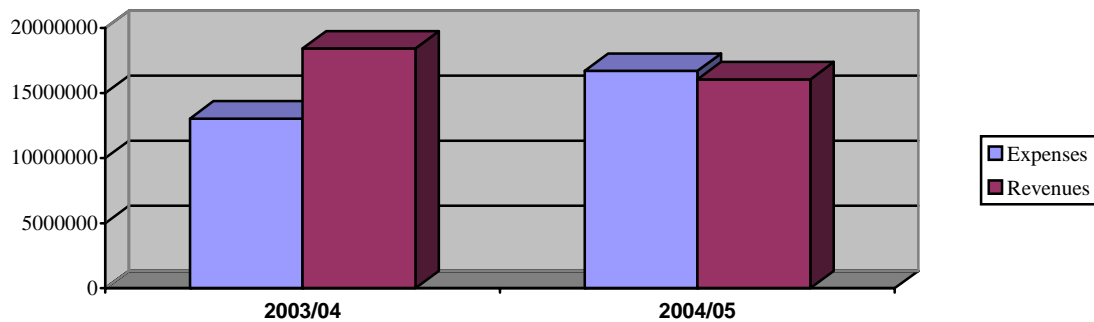
Year Ended June 30, 2005

Financial Analysis (continued)

Changes in Net Assets (continued)

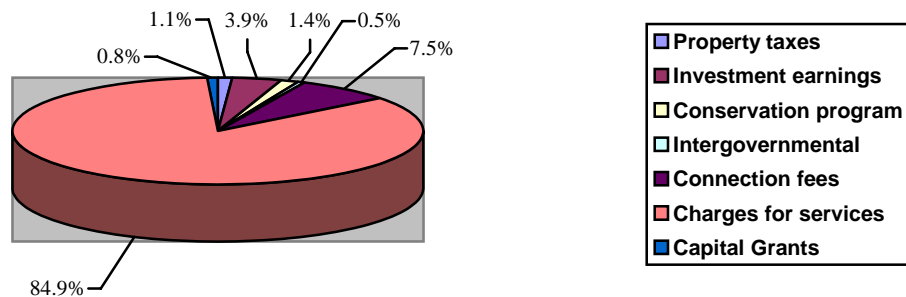
	June 30, 2004	June 30, 2005	Percentage Change
Expenses			
Services and supplies	\$ 8,482,237	\$ 8,739,126	3.0 %
Fiscal agent/legal services	99,337	37,633	(62.1) %
Depreciation/amortization	3,287,831	3,253,765	(1.0) %
Environmental investigation	193,375	22,469	(88.4) %
Interest expense	899,668	715,124	(20.5) %
Conservation program expense	68,781	44,411	(35.4) %
Loss on disposal of fixed assets	-	26,706	N/A
Total expenses	13,031,229	12,839,234	(1.5) %
Special item – dissolution of Forestville Sanitation District	-	(3,862,396)	N/A
Increase (decrease) in net assets	5,389,042	(645,882)	(111.8) %
Net assets at beginning of year	85,598,545	90,987,587	6.3 %
Net assets at end of year	\$ 90,987,587	\$ 90,341,705	(0.7) %

The Districts' net assets decreased by \$(645,882) during 2005 compared to an increase of \$5,389,042 during 2004. The difference between years reflects the transfer out of Forestville CSD and the absence of this district's operation for the 2005 year.

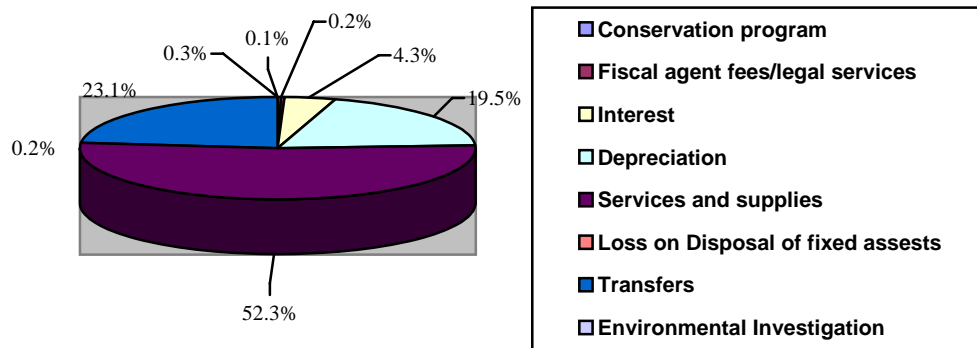
*Financial Analysis (continued)**Expenses and Revenues*

Total revenues of the Districts for fiscal year 2004/05 totaled \$16,055,748 representing a decrease of \$2,364,523 from the preceding fiscal year revenues of \$18,420,271. The rate based charges for services, representing 84.9% of the Districts' total revenue, increased by \$489,270 (3.7%); property taxes, representing 1.1% of the Districts' total revenue, increased by \$23,502; connection fees, representing 7.5% of the Districts' total revenue, decreased by \$845,664; capital grants decreased \$1,118,470. Other revenue categories (intergovernmental conservation program and other miscellaneous revenues) decreased by \$1,119,012. Investment earnings improved from the preceding year by \$285,851. The combined effect of these occurrences is an overall decrease in revenues of 12.8%.

Total expenses for the Districts decreased by \$191,995 to \$12,839,234 for fiscal year 2004/05. Interest expense decreased \$184,544 (20.5%), and conservation program expenses decreased \$24,370 (35.4%). Environmental investigation costs related to the South Park HVOC plume investigation decreased \$170,906 from the preceding year due to the completion of the project. Depreciation/amortization expenses decreased \$34,066 (1.0%) as a result of the dissolution of Forestville along with the completion of numerous capital projects during the preceding year. Costs related to collection and administrative/general reflect only inflationary cost increases.

*Financial Analysis (continued)**Revenues by Source*

As previously mentioned, total revenues collected by the Districts for 2004/05 totaled \$16,055,748. Of this amount \$13,624,375 or 84.9%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Connection fees, which accounted for 7.5% of the annual revenue, are also collected through the permitting process. Property tax revenues accounted for 1.1% of the annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 3.9% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer, as well as interest earnings on revenue bond reserve accounts held with trustees. Conservation program revenues which is received by Sonoma Valley via the permitting process accounted for 1.4% of revenues. The 0.5% of revenue attributable to intergovernmental revenues includes funds received from the Sonoma County Water Agency (\$77,812) towards operating expenses. Grant funds totaling \$120,910 were received towards capital projects in Sonoma Valley (\$37,500) and South Park (\$83,410).

Expenses by Function

Total expenses and transfers out for the Districts for fiscal year 2004/05 totaled \$16,701,630. Costs associated with the collection, treatment, and disposal of effluent represent 52.3% of the Districts' costs. Transfers out amounted to 23.1%. The next largest functional area is the annual depreciation expense on capital assets and represents \$3,253,765 (19.5%) of total expenses. Interest expense totaling \$715,124 (4.3%) represents the cost of meeting current debt service obligations. Conservation program expenses totaling \$44,411 (0.3%) represents costs related to conservation activities in Sonoma Valley. The remaining 0.5% of expenses represents fiscal agent/legal services fees of \$37,633, environmental investigation costs of \$22,469, and a loss on disposal of fixed assets of \$26,706.

Management's Discussion and Analysis**Year Ended June 30, 2005****Capital Asset and Debt Administration***Capital assets*

The Districts' investment in capital assets as of June 30, 2005, amounts to \$92,617,701 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and construction in progress. The decrease in capital assets is due primarily to the dissolution of Forestville CSD.

Major capital asset events during the current fiscal year included the following:

- 5th St / East Napa / East McMinn - Sonoma Valley (ongoing) – repair and replacement of the sewer collection system.
- Third unit processes project - Russian River (ongoing) - to increase the reliability of the treatment plant during wet weather conditions per directive of the North Coast Regional Water Quality Control Board.
- Victoria Drive / Corby Avenue – South Park – collection system replacement along the Victoria Drive/Corby Avenue area.
- Kenmore Lane Collection System - South Park (ongoing) - collection system replacement along Kenmore Lane.

Sonoma County Sanitation Districts' Capital Assets

	June 30, 2004	June 30, 2005	Percentage Change
Land	\$ 3,640,964	\$ 3,286,391	(9.7) %
Buildings and improvements	125,733,750	118,798,321	(5.5) %
Machinery and equipment	303,481	227,179	(25.1) %
Construction in progress	10,047,371	14,400,476	43.3 %
Accumulated depreciation	(41,795,289)	(44,094,666)	5.5 %
Total	\$ 97,930,277	\$ 92,617,701	(5.4) %

Additional information on the Districts' capital assets can be found in Note E on pages 27 and 28 of the financial statement footnotes.

Management's Discussion and Analysis**Year Ended June 30, 2005****Capital Asset and Debt Administration (continued)***Long-term debt*

At the end of the current fiscal year, the Districts had a total of \$28,347,879 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$1,759,000 comprises debt backed by the full faith and credit of the Districts, \$22,337,328 which are special obligations of the Districts payable solely from net revenues of Districts operations, and \$4,251,551 is related to advances from the County of Sonoma and the State Water Resources Control Board.

Sonoma County Sanitation Districts' Outstanding Current and Long Term Debt

	June 30, 2004	June 30, 2005	Percentage Change
General obligation bonds	\$ 1,855,000	\$ 1,759,000	(5.2) %
Revenue bonds	23,054,728	22,337,328	(3.1) %
Advances/due to	5,264,937	4,251,551	(19.2) %
Total	\$ 30,174,665	\$ 28,347,879	(6.1) %

The Districts' total debt decreased by \$1,826,786 during the current fiscal year.

Advances from other governments/funds decreased by \$1,013,386 (19.2%) due primarily to the dissolution of Forestville CSD. The dissolution of Forestville CSD advances (\$4,163,100) was offset by the receipt of loan funds from the State Water Resources Control Board towards the 3rd Unit Processes project in Russian River (\$3,352,796). Annual repayments of existing advances totaled \$203,082.

The general obligation and revenue bonds decrease in outstanding debt is related to the annual required payments.

Additional information on the Districts' current and long-term debt can be found in Notes F, G and H on pages 28 – 31 of this report.

Next Year's Budgets and Rates

Budgeted expenses for operation, debt service and capital outlay for the Districts for fiscal year 2005/06 have decreased by \$7,534,692 (16.9%) for a total of \$36,965,235. Of the four Districts, Occidental, Sonoma Valley, and South Park reflect a significant reduction in budgeted expenses from the preceding fiscal year. The reductions range from an 11.0% decrease (\$2,551,852) within Sonoma Valley to a 40.7% reduction (\$2,956,337) within Occidental. The major component of the reduction in budget expenses is related to significantly lower anticipated capital outlay expenditures due to the completion of capital projects during the current year. Increases in budgeted expenses for Russian River are the result of increases in planned construction related to upgrades of treatment plant facilities.

Sonoma County Sanitation Districts

Management's Discussion and Analysis

Year Ended June 30, 2005

Next Year's Budgets and Rates (continued)

Following is a comparison of final 2004/05 and proposed 2005/06 budgeted expenses for the four Districts:

	2004/05	2005/06	Increase (Decrease)	Percentage Change
Occidental				
Operations	\$ 306,924	\$ 301,855	\$ (5,069)	(1.7) %
General Obligation Bonds	510	242	(268)	(52.5) %
Construction	6,951,000	4,000,000	(2,951,000)	(42.5) %
	7,258,434	4,302,097	(2,956,337)	(40.7) %
Russian River				
Operations	3,264,791	3,500,107	235,316	7.2 %
General Obligation Bonds	84,800	80,552	(4,248)	(5.0) %
Revenue Bonds	64,750	62,000	(2,750)	(4.3) %
Construction	3,113,185	3,346,292	233,107	7.5 %
	6,527,526	6,988,951	461,425	7.1 %
Sonoma Valley				
Operations	10,227,426	10,383,406	155,980	1.5 %
Construction	12,032,116	9,350,388	(2,681,728)	(22.3) %
Outfall line	11,669	10,637	(1,032)	(8.8) %
Glen Ellen Bonds	7,950	7,302	(648)	(8.2) %
Revenue Bonds	912,158	887,734	(24,424)	(2.7) %
	23,191,319	20,639,467	(2,551,852)	(11.0) %
South Park				
Operations	2,644,445	2,965,231	320,786	12.1 %
Revenue Bonds	737,376	184,178	(553,198)	(75.0) %
Construction	4,140,827	1,885,311	(2,255,516)	(54.5) %
	7,522,648	5,034,720	(2,487,928)	(33.1) %
	\$ 44,499,927	\$ 36,965,235	\$ (7,534,692)	(16.9) %

NOTE: Budgeted expenses for fiscal year 2004/05 differ in several instances from the budgeted expenses presented in the financial statements issued for the period ending June 30, 2004. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2004/05 financial audit. In addition, the budget for Forestville Sanitation District for FY 2003-04 has been removed as this District was dissolved effective 7/1/2004.

Management's Discussion and Analysis**Year Ended June 30, 2005****Next Year's Budgets and Rates** (continued)

The sewer service fees were increased for the 2005 - 2006 budget year. The rates were increased by an average of 4.9 %.

Following are tables showing the sanitation services rates and equivalent single dwellings by District.

Rate per Equivalent Single-Family Dwelling

	2004/05	2005/06	Percentage Change
District			
Occidental	976	1,043	6.9 %
Russian River	816	861	5.5 %
Sonoma Valley	486	518	6.6 %
South Park	684	684	0.0 %

Number of Equivalent Single-Family Dwellings by District

	2004/05	2005/06	Percentage Change
District			
Occidental	260	263	1.15%
Russian River	3,147	3,152	0.16%
Sonoma Valley	16,672	16,870	1.19%
South Park	3,943	3,905	(0.96)%

Request for Additional Information:

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, Ca. 95403

Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Net Assets

June 30, 2005

Assets

Current assets

Cash and cash equivalents	\$ 20,195,511
Accounts receivable (net of allowance for uncollectibles of \$37,711)	1,325,203
Other receivables	13,846

Total current assets	21,534,560
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Noncurrent assets

Restricted cash, cash equivalents, and investments:

Cash - conservation program	2,000,814
Cash - general obligation bond fund	110,263
Cash - revenue bond fund	418,763
Cash with trustee restricted for debt service	1,626,938
Cash with trustee restricted for capital projects	811,331

Total restricted assets	4,968,109
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Other receivables	105,048
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Other assets	374,433
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Capital assets:

Land	3,286,391
Buildings and improvements	118,798,321
Machinery and equipment	227,179
Construction in progress	14,400,476
Less accumulated depreciation	(44,094,666)

Total capital assets (net of accumulated depreciation)	92,617,701
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Total noncurrent assets	98,065,291
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Total assets	\$ 119,599,851
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See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Net Assets (continued)

June 30, 2005

Liabilities

Current liabilities payable from unrestricted assets

Accounts payable and accrued expenses	\$ 435,486
Due to other governments	38,084
Due to other related governments	316,000
Accrued interest payable	15,500

Total current liabilities payable from unrestricted assets	805,070
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Current liabilities payable from restricted assets

General obligation bonds payable	1,000
Revenue bonds payable	750,000
Accrued interest payable	459,281

Total current liabilities payable from restricted assets	1,210,281
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Total current liabilities	2,015,351
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Noncurrent liabilities

General obligation bonds payable	1,758,000
Revenue bonds payable	21,587,328
Advances from other governments	3,745,314
Advances from other related governments	152,153

Total noncurrent liabilities	27,242,795
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Total liabilities	29,258,146
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Net assets

Invested in capital assets, net of related debt	64,644,255
Restricted for conservation program	2,000,814
Restricted for debt service	1,696,683
Restricted for capital projects	811,331
Unrestricted	21,188,622

Total net assets	\$ 90,341,705
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See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets

		Year Ended June 30, 2005
Operating revenues		
Flat charges	\$	12,499,332
Charges for services		1,030,448
Other		94,595
Total operating revenue		13,624,375
Operating expenses		
Services and supplies		8,739,126
Fiscal agent fees and legal services		37,633
Depreciation and amortization		3,253,765
Environmental investigation		22,469
Total operating expenses		12,052,993
Operating income		1,571,382
Nonoperating revenues (expenses)		
Investment income		628,519
Interest expense		(715,124)
Intergovernmental		78,040
Property taxes		173,608
Conservation program revenue		228,870
Conservation program expense		(44,411)
Other		(26,706)
Net nonoperating revenue		322,796
Net income before contributions		1,894,178
Connection fees		1,201,426
Capital grants		120,910
Special item - dissolution of Forestville Sanitation District		(3,862,396)
Increase in net assets		(645,882)
Net assets at beginning of year		90,987,587
Net assets at end of year		\$ 90,341,705

See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows

Year Ended June 30, 2005

Cash flows from operating activities

Receipts from customers	\$ 13,479,944
Payments for interfund services used	(5,539,347)
Payments to suppliers	(3,186,948)

Net cash provided by operating activities	4,753,649
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Cash flows from noncapital financing activities

Taxes	173,836
Intergovernmental revenue	64,537
Conservation program	219,154
Principal payments - advances	(100,000)

Net cash provided by noncapital financing activities	357,527
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Cash flows from capital and related financing activities

Purchase of capital assets	(6,391,441)
Principal payments - other governments	(38,084)
Principal payments - bonds	(841,000)
Principal payments - advances	(66,000)
Interest paid on capital debt	(1,223,240)
Advances from other governments	3,352,796
Advances from other related governments	77,812
Connection fees	1,356,160
Special item - dissolution of Forestville Sanitation District	(6,032)

Net cash used in capital related financing activities	(3,779,029)
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Cash flows from investing activities

Interest received on pooled cash and investments	628,584
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Net increase in cash and cash equivalents	1,960,731
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Cash and cash equivalents at beginning of year	23,202,889
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Cash and cash equivalents at end of year	\$ 25,163,620
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Cash and cash equivalent includes the following:

Cash and cash equivalents	\$ 20,195,511
Restricted cash and cash equivalents	4,968,109

	\$ 25,163,620
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See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows (continued)

Year Ended June 30, 2005

Reconciliation of operating income to net cash

provided by operating activities:

Operating income	\$ 1,571,382
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	3,253,765
Change in assets and liabilities:	
Increase in accounts receivable	(144,435)
Decrease in accounts payable and accrued expenses	72,937
Net cash provided by operating activities	\$ 4,753,649

Noncash investing, capital and financing activities:

Project costs included in accounts payable	\$ (969,993)
Net decrease in fair value of investment in County Treasurer's Pooled cash	\$ (55,420)
Dissolution of Forestville Sanitation District (Note C)	\$ (3,856,364)

See accompanying Notes to Basic Financial Statements

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Districts as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Distribution of Forestville County Sanitation District
- Note D. Cash and Investments
- Note E. Capital Assets
- Note F. Due to Other Governments
- Note G. Interfund Accounts
- Note H. Long-Term Obligations
- Note I. Accrued Interest Payable
- Note J. Segment Information
- Note K. Related Party Transactions
- Note L. Commitments and Contingencies
- Note M. Recent Governmental Accounting Standards
- Note N. Subsequent Event

Note A. Defining the Financial Reporting Entity

The four Sonoma County Sanitation Districts (the "Districts") including Occidental, Russian River, Sonoma Valley and South Park, are managed by the Sonoma County Water Agency, which provides engineering, administration, operational, and maintenance services. Prior to December 31, 1994, the Districts were managed by the Department of Transportation and Public Works. The Districts are responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants. Each District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of South Park Sanitation District, was finalized on February 27, 1996 and amended February 1998 and June 2000. Under this agreement, 1) South Park will be dissolved no later than July 1, 2006, 2) the City of Santa Rosa shall acquire the unused capacity of South Park, and 3) South Park will upgrade the collection system to meet City of Santa Rosa standards. The agreement requires South Park to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before transfer of South Park to the City of Santa Rosa. On July 1, 1996, the City of Santa Rosa accepted responsibility for the operation and routine maintenance of the collection system.

Component Unit Reporting

The Districts (except for Sonoma Valley) are governed by the Board of Supervisors ("Board of Supervisors") of the County of Sonoma (the "County"). Sonoma Valley Sanitation District is governed by a three member board, including two County Supervisors. The exercise of this oversight responsibility causes the Districts to be an integral part of the County of Sonoma's reporting entity. Therefore, the Districts' financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

The Districts conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of significant accounting policies is included below:

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) displays information on the Districts as a whole. These financial statements include the financial activities of the District's nonfiduciary activities. For the most part, the effect of inter-district activity has been removed from these statements. The Districts do not have any activities that are considered government-type or fiduciary activities. The statement of net assets presents the financial condition of the business activities of the Districts at year end.

Note B. Summary of Significant Accounting Policies (continued)*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Districts use a proprietary (enterprise) fund to account for their activities. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and all liabilities associated with the operation of the Districts are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncement (Statements and Interpretations), constitutes GAAP for governmental units.

Net assets (i.e. total assets net of total liabilities) are segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Districts are charges for services. Operating expenses for the Districts include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Note B. Summary of Significant Accounting Policies (continued)*Cash and Investments*

The Districts' cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Districts. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate Districts based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool"), an internal investment pool.

The Districts apply the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB No. 31, the District has stated certain Treasury Pool investments at fair value.

The Districts apply the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB No. 3*, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to credit risk, interest rate risk and foreign currency risk. In accordance with GASB No. 40, the Districts have made such disclosure.

Statement of cash flows are presented for proprietary fund types. For this purpose, the Districts consider all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee, customer deposits and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Accounts and Other Receivables

Accounts receivable consists of uncollected fees for sanitation services at June 30, 2005.

Other accounts receivables represents outstanding flat charges at June 30, 2005. These flat charges are established annually by the Board of Supervisors and billed through the County's property tax system.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of one year comprise the allowance for uncollectibles.

Other receivables includes amounts to be collected for connection fees related to Russian River Ordinance #39. The Ordinance #39 receivables have 15 year lives with an interest rate of 5%.

Note B. Summary of Significant Accounting Policies (continued)*Accounts and Other Receivables (continued)*

Other assets are composed of debt issuance costs of \$374,433 for the year ended June 30 2005, from issuance of debt, net of accumulated amortization. These costs are amortized using a method which approximates the interest rate method over the terms of the related long-term debt.

Amortization expense amounted to \$37,190 for the year ended June 30 2005.

Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions and formal actions of the Board of Supervisors or by agreement, for the purpose of funding certain debt service payments, rebate programs and improvements and extensions to the wastewater treatment systems.

Capital Assets

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized using a method which approximates the interest method over the term of issuance. The discounts are netted against the related debt.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes \$811,331 in unspent debt proceeds for the year ended June 30 2005. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Note B. Summary of Significant Accounting Policies (continued)*Budget and Budgetary Accounting*

The Board of Supervisors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types within the jurisdiction of Sonoma County. The general manager of the Sonoma County Water Agency is authorized to transfer budgeted amounts within any District except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or the Board of Supervisors.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Districts.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Districts each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Interfund Transactions

The following is a description of the basic types of interfund transactions made during the year and the related accounting policies:

- 1) Quasi-external (charges for current services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Interfund transactions occurring between the Districts are eliminated from the totals of the financial statements.

Note B. Summary of Significant Accounting Policies (continued)*Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note C. Distribution of Forestville County Sanitation District

Effective July 1, 2004, the Forestville County Sanitation District was reorganized. The existing District was dissolved and the successor in interest is the combination of the Forestville County Sanitation District, as it was, and the Mirabel Heights Zone of Benefit of County Service Area No. 41. Both the Forestville County Sanitation District and the Mirabel Heights Zone of Benefit will be operated by the Forestville Water District.

The following schedule illustrates the financial reporting effect of the distribution of the Forestville County Sanitation District:

Non-cash distribution*Assets transferred to Forestville Sanitation District:*

Capital assets	\$(8,029,732)
Other current and non-current assets	(453,297)

Liabilities assumed by Forestville Sanitation District:

Accounts payable and accrued expenses	463,565
General obligation bonds	4,163,100

Total non-cash distribution	(3,856,364)
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Cash distribution	(6,032)
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Total distribution	\$(3,862,396)
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Cash balance represents fair market value of deposits held in the County Treasury Pool as of July 1, 2004. The difference between book value and fair market value was immaterial. Total net assets were distributed as a special item.

Note D. Cash and Investments

The Districts follow the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Note D. Cash and Investments (continued)

Interest income earned on pooled cash and investments is allocated quarterly to the various districts based on the average daily balances by district during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related district.

Investment Guidelines

The Districts' pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Balance Sheet

Cash and investments included the following:

	Carrying Amount	Fair Value
Cash and investments in Sonoma County treasurer's pooled investment fund	\$ 22,780,771	\$ 22,725,351
Cash and investments with trustee	2,438,269	2,438,269
	<u>\$ 25,219,040</u>	<u>\$ 25,163,620</u>

Note D. Cash and Investments (continued)*Balance Sheet (continued)*

At of June 30, 2005, the Districts' investments consisted of \$22,725,351 in the Treasury Pool managed by the County Treasurer, which has weighted average maturity of less than two years. The credit rating and other information regarding the Treasury pool for the fiscal year 2004-05 are disclosed in the County of Sonoma's 2004-05 Comprehensive Annual Financial Report.

The net increase in the fair value of the Districts' investments during fiscal year 2004-05 was \$6,394. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at year end amounted to \$55,420. The realized gain and loss from securities matured during the current fiscal year are recognized through the net change in the fair value of the investment held in the Treasury Pool.

Net increase (decrease) in fair value of investments by fund, and included in revenue – investment earnings, were as follows:

Occidental Sanitation District	\$ 115
Russian River Sanitation District	(3,697)
Sonoma Valley Sanitation District	8,248
South Park Sanitation District	1,728
	<hr/>
	\$ 6,394

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Districts manage their exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

As of June 30, 2005, all of the Districts' investments held by bond trustee have a maturity of less than 12 months, as the following schedule presents:

Investment Type	Remaining Maturity 12 Months or Less
Money market funds	\$ 878,993
Held by bond trustee:	
U.S. Treasury obligations	20,466
Investment contracts	1,538,810
	<hr/>
Total	\$ 2,438,269

Note D. Cash and Investments (continued)*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Districts' investments at June 30, 2005, are categorized to give an indication of the level of risk assumed by the Districts. Category 1 includes investments that are insured or registered, or for which the securities are held by the Districts or its agent in the Districts' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Districts' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Districts' name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

At June 30, 2005, all of the Districts' investments are in pools managed by other governments and are therefore not subject to categorization.

Cash with fiscal agents is collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the individual districts. Funds are available for their designated purpose on short notice and are treated as a cash equivalent.

Concentration of Credit Risk

The investment policy of the Districts contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Districts investments are as follows:

Issuer	Investment Type	Reported Amount
AIG Matched Funding Corporation	Investment contracts	\$ 1,538,810

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Districts follow the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note D. Cash and Investments (continued)*Credit Risk* (continued)

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating at year end		Not Rated
				AAA	Aa	
Money market funds	\$ 878,993	A	\$ -	\$ -	\$ -	\$ 878,993
Held by bond trustee:						
U.S. Treasury obligations	20,466	N/A	20,466	-	-	-
Investment contracts	1,538,810	N/A	-	-	-	1,538,810
Total	\$ 2,438,269		\$ 20,466	\$ -	\$ -	\$2,417,803

Note E. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance July 1, 2004	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2005
Capital assets, not being depreciated:					
Land	\$ 3,640,964	\$ 1,811	\$ -	\$ (356,384)	\$ 3,286,391
Construction in progress	10,047,371	5,958,625	-	(1,605,520)	14,400,476
Total capital assets, not being depreciated	13,688,335	5,960,436	-	(1,961,904)	17,686,867
Capital assets, being depreciated:					
Buildings and improvements	125,733,750	-	-	(6,935,429)	118,798,321
Machinery and equipment	303,481	-	(76,302)	-	227,179
Total capital assets being depreciated	126,037,231	-	(76,302)	(6,935,429)	119,025,500

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note E. Capital Assets (continued)

	Beginning Balance July 1, 2004	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2005
Less accumulated depreciation for:					
Buildings and improvements	(41,614,376)	(3,195,806)	-	867,601	(43,942,581)
Machinery and equipment	(180,913)	(20,769)	49,597	-	(152,085)
Total accumulated depreciation	(41,795,289)	(3,216,575)	49,597	867,601	(44,094,666)
Total capital assets, being depreciated, net	84,241,942	(3,216,575)	(26,705)	(6,067,828)	74,930,834
Total capital assets, net	\$ 97,930,277	\$ 2,743,861	\$ (26,705)	\$ (8,029,732)	\$ 92,617,701

Depreciation expense amounted to \$3,216,575 for the year ended June 30, 2005.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the year ended June 30, 2005 amounted to \$538,990.

Note F. Due to Other Governments

During fiscal year 1994-95, Sonoma Valley received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2005, the outstanding balance is \$430,602. The loan is a State Revolving Loan with current payments of \$49,710, payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

Annual debt service requirements to maturity for this revolving loan are as follows:

Year ending June 30,	Principal	Interest
2006	\$ 38,084	\$ 11,626
2007	39,112	10,598
2008	40,168	9,542
2009	41,252	8,458
2010	42,366	7,344
2011 – 2014	229,620	18,930
	\$ 430,602	\$ 66,498

Note F. Due to Other Governments (continued)

During fiscal year 2004 - 2005, the Russian River County Sanitation District received a revolving fund loan from the State Water Resources Control Board to help fund the third unit processes project. The loan carries a 2.5% interest rate and the maximum borrowing limit is \$4,086,971. The loan will be paid back over a 20-year term. However, no repayments are required before the project is complete. As of June 30, 2005, the total amount borrowed by Russian River was \$3,352,796. No estimated completion date was available on the date of the report.

Note G. Interfund Accounts

Activity between related governments that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other related governments" (i.e., the current portion of interfund loans) or "advances to/from other related governments" (i.e., the non-current portion of interfund loans).

At June 30, 2005, interfund balances between the Districts and the County of Sonoma are as follows:

Due to other related governments

Receivable Fund	Payable District	Amount
Sonoma County Water Agency General Fund	Occidental	\$ 250,000
County of Sonoma General Fund	Russian River	66,000
		<u>\$ 316,000</u>

Advances from other related governments

Receivable Fund	Payable District	Amount
County of Sonoma General Fund	Russian River	\$ 152,153

Note H. Long-Term Obligations*General Obligation Bonds*

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$3,232,000. No new general obligation bonds were issued during the current fiscal year.

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note H. Long-Term Obligations (continued)*General Obligation Bonds (continued)*

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

District	Interest Rates	Amount
Occidental	5%	\$ 4,000
Russian River	4% - 5%	1,610,000
Sonoma Valley	4% - 5%	145,000
		\$ 1,759,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2006	\$ 1,000	\$ 190
2007	101,000	85,393
2008	107,000	80,195
2009	112,000	74,723
2010	117,000	68,975
2011 - 2015	678,000	249,225
2016 – 2018	643,000	65,550
Total	\$ 1,759,000	\$ 624,251

Revenue Bonds

The government also issues bonds where the government pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued in prior years to finance construction projects to both expand existing wastewater treatment facilities and construct additional facilities was \$26,975,000. No new revenue bonds were issued during the current fiscal year.

Purpose	Interest Rates	Outstanding Amount
Wastewater treatment		
Russian River	5.00%	\$ 1,240,000
Sonoma Valley	4.00 - 5.00%	18,165,000
South Park	4.00 - 5.00%	3,255,000
		\$ 22,660,000

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note H. Long-Term Obligations (continued)*Revenue Bonds* (continued)

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2006	\$ 750,000	\$ 1,086,834
2007	785,000	1,053,233
2008	830,000	1,017,198
2009	865,000	978,603
2010	895,000	937,034
2011 – 2015	5,185,000	3,991,638
2016 – 2020	6,495,000	2,537,342
2021 - 2025	6,380,000	795,509
2026 – 2027	475,000	27,262
Total	\$ 22,660,000	\$ 12,424,653

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2005 was as follows:

	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 1,855,000	\$ -	\$ (96,000)	\$ 1,759,000	\$ 1,000
Revenue bonds	23,395,000	-	(735,000)	22,660,000	750,000
Less deferred amounts:					
For issuance discounts	(340,272)	-	17,600	(322,672)	N/A
Total revenue bonds payable	23,054,728	-	(717,400)	22,337,328	750,000
Total bonds payable	\$ 24,909,728	\$ -	\$ (813,400)	\$ 24,096,328	\$ 751,000

Note I. Accrued Interest Payable

Interest payable consists of interest accrued on the following obligations:

Payable from unrestricted current assets:	
United States Department of Agriculture	\$ 15,500
Payable from restricted current assets:	
State Water Resources Control Board	55,029
Long-term bonds	404,252
Total accrued interest payable	\$ 474,781

Note J. Segment Information

Several of the Districts issued revenue bonds to finance treatment plant upgrades and construction. Investors in the revenue bonds rely solely on the revenue generated by the individual districts for repayment. Summary financial information for the individual districts is presented below.

	<i>Amounts in thousands</i>			
	Occidental	Russian River	Sonoma Valley	South Park
Assets				
Current assets	\$ 87	\$ 3,068	\$ 12,419	\$ 5,961
Noncurrent assets:				
Restricted cash	4	521	3,564	879
Other receivables	-	105	-	-
Other assets	-	-	265	109
Capital assets (net of accumulated depreciation)	841	28,652	57,679	5,445
Total assets	\$ 932	\$ 32,346	\$ 73,927	\$ 12,394
Liabilities				
Current liabilities payable				
from unrestricted assets	\$ 4	\$ 107	\$ 305	\$ 20
Due to other governments	-	-	38	-
Due to other related governments	250	66	-	-
Accrued interest payable	-	16	-	-
Total current liabilities payable from unrestricted assets	254	189	343	20
Current liabilities payable from restricted assets	1	98	983	128
Total current liabilities	255	287	1,326	148

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note J. Segment Information (continued)

	<i>Amounts in thousands</i>			
	Occidental	Russian River	Sonoma Valley	South Park
Noncurrent liabilities				
Advances from other governments	-	3,353	393	-
Advances from other related governments	-	152	-	-
Other noncurrent liabilities	3	2,795	17,396	3,150
Total noncurrent liabilities	3	6,300	17,789	3,150
Total liabilities	258	6,587	19,115	3,298
Net assets				
Invested in capital assets, net of related debt	587	22,231	39,507	2,319
Restricted for:				
Conservation	-	-	2,001	-
Debt service	4	478	1,128	87
Capital projects	-	-	63	749
Unrestricted (deficit)	83	3,050	12,113	5,941
Total net assets	\$ 674	\$25,759	\$54,812	\$ 9,096
Operating revenues				
Flat charges	\$ 229	\$ 2,540	\$ 7,099	\$ 2,632
Charges for services	8	23	967	32
Other	-	-	-	95
Total operating revenue	237	2,563	8,066	2,759
Operating expenses				
Depreciation and amortization	33	897	2,178	146
Other operating expenses	336	1,733	5,033	1,698
Total operating expenses	369	2,630	7,211	1,844
Operating income (loss)	(132)	(67)	855	915

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note J. Segment Information (continued)

	<i>Amounts in thousands</i>			
	Occidental	Russian River	Sonoma Valley	South Park
Nonoperating revenues (expenses)				
Investment income	2	73	402	152
Interest expense	-	(63)	(522)	(130)
Intergovernmental	78	-	-	-
Property taxes	-	156	18	-
Conservation program revenue	-	-	229	-
Conservation program expense	-	-	(44)	-
Other	-	-	(28)	-
Total nonoperating revenue	80	166	55	22
Income before contributions	(52)	99	911	937
Connection fees	5	40	1,151	5
Capital grants	-	-	38	83
Increase (decrease) in net assets	(47)	139	2,100	1,025
Net assets at beginning of year	721	25,621	52,712	8,071
Net assets at end of year	\$ 674	\$ 25,760	\$ 54,812	\$ 9,096
Net cash provided by (used in)				
operating activities	\$ (98)	\$ 803	\$ 3,017	\$ 1,031
Net cash provided by noncapital financing activities	(4)	183	275	(95)
Net cash used in capital related financing activities	81	784	(4,003)	(634)
Net cash provided by investing activities	2	73	402	152
Net increase (decrease) in cash and cash equivalents	(19)	1,843	(309)	454
Cash and cash equivalent at beginning of year	108	1,484	15,516	6,087
Cash and cash equivalents at end of year	\$ 89	\$ 3,327	\$ 15,207	\$ 6,541

Note K. Related Party Transactions

The Sanitation Districts are Special Districts under the Board of Supervisors, and as such, have the same or similar board members as the County of Sonoma.

The Districts are managed by the Sonoma County Water Agency, which provides administration, engineering, operational, and maintenance services. The Districts do not incur any payroll expenses. The Sonoma County Water Agency allocates overhead costs amongst the Districts via the use of a 55% overhead rate charged on all expenditures applicable to the Districts. The overhead rate is reviewed annually by management to determine its effectiveness.

The following schedule details approximate amounts paid to Sonoma County Water Agency for administrative support during the year ended June 30, 2005:

District	
Occidental	\$ 251,341
Russian River	1,301,289
Sonoma Valley	3,583,036
South Park	38,633

During the year ended June 30, 2005, Occidental County Sanitation District ("OCS D") received funding from Sonoma County Water Agency to allow the Sanitation District to meet operating expenses. The total funding received by RRCSD amounted to \$61,812 as of June 30, 2005.

Note L. Commitments and Contingencies*Commitments*

The government has active construction projects as of June 30, 2005. The projects include expansion and/or improvements of several wastewater treatment facilities. At year end, the Sanitation District's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Occidental improvements	\$ 377,389	\$ -
Russian River expansion	5,500,781	149,042
Sonoma Valley expansion	8,969,678	416,388
South Park improvements	1,139,090	1,242,811
Total	\$ 15,986,938	\$ 1,808,241

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by wastewater revenues and by net assets.

Note L. Commitments and Contingencies (continued)*Commitments (continued)*

Occidental County Sanitation District Board of Directors approved an agreement for a wastewater collection system replacement project. In connection with this project, Occidental County Sanitation District entered into a contract with consulting engineers in the amount of \$75,000. The Occidental CSD anticipates the construction cost of the project to be approximately \$1.6 million.

On June 29, 2004, the Occidental County Sanitation District entered into an agreement with a consulting company for engineering and design services for Occidental County Sanitation District and Camp Meeker Wastewater Reclamation Project. Phase 1 of this project is in the amount of \$535,500, and began in the 2004-05 fiscal year.

Risk Management

The Sanitation Districts are covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Sanitation Districts are covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The Sanitation Districts pay an annual premium to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

Note L. Commitments and Contingencies (continued)*Pending Litigation, Claims, and Investigation*All Districts

In September 2004, the Sonoma County Water Agency ("Water Agency") received a revised 60-day notice letter from Northern California River Watch ("River Watch") providing notification that River Watch intended to file a citizen's suit action against the Water Agency and the County for violation of Clean Water Act permit requirements at treatment facilities including Russian River County Sanitation District, Occidental County Sanitation District and Sonoma Valley County Sanitation District. The sanitation districts are operated by the Water Agency under contract. River Watch sent a similar 60-day notice letter to the Water Agency in March of 2003. River Watch filed its suit in December 2004, but withdrew the suit without prejudice and has entered into a tolling agreement with the Agency to explore settlement options. Negotiations are continuing. Substantial costs may be incurred by the Water Agency or the various sanitation districts in connection with future proceedings based on the claims of violations of the Clean Water Act alleged by River Watch, or in connection with a settlement of any such claims. Costs may include penalties, attorneys' fees, court costs and costs associated with physical improvements determined to be necessary to comply with the Clean Water Act. It is too early to predict the amount of these costs or the source of funds.

Occidental County Sanitation District

In March, 2003, two enforcement orders issued by the North Coast Regional Board ("NC Regional Board") against the Occidental County Sanitation District ("OCSD") and the Sonoma County Water Agency ("Water Agency") remain outstanding pending completion of capital improvements for the OCSD facility. These enforcement orders require the OCSD to construct compliance projects to address historical discharge permit violations. One of the projects planned to comply with the enforcement orders is to replace OCSD's collection system. A second project would consist of constructing a new pipeline from Occidental to the Russian River County Sanitation District treatment plant in Guerneville to treat wastewater generated by OCSD and the closure of OCSD's existing treatment plant. CEQA review may need to be completed on the pipeline/treatment plant closure project. Estimated costs for these projects are still being developed, but are anticipated to be on the order of \$8,000,000. It is too early to predict the cost for OCSD to participate in construction of this project as the level of cost will depend on the amount of grants and loans obtained from outside funding agencies. The OCSD is authorized to spend approximately \$150,000 of previously assessed mandatory minimum penalty fines toward one or possibly both of these compliance projects. In addition, although payment of a \$50,000 fine for previous violations at the OCSD facility has been postponed by the NC Regional Board and may be waived, payment will be required if system improvements are not completed by OCSD in the next several years.

Note L. Commitments and Contingencies (continued)*Pending Litigation, Claims, and Investigation (continued)*Russian River County Sanitation District

In June 2005, the North Coast Regional Water Quality Control Board ("NC Regional Board") issued Administrative Civil Liability (ACL) to the Russian River County Sanitation District ("RRCSD") and Sonoma County Water Agency ("Water Agency") for violations of effluent limitations that occurred during periods of discharge to receiving waters from January 2000 through August 2004. The RRCSD and the Water Agency were assessed a mandatory penalty of \$63,000 pursuant to the ACL. The majority of this penalty (\$60,400) is eligible to be permanently suspended if the Executive Officer of the NC Regional Board determines that reasonable progress is being made (and reported) toward completion of a compliance project and the suspended amount is spent toward completion of the compliance project within 5 years from the date of the ACL. Annual reports will be submitted to the NC Regional Board to report progress on the selected compliance project, which is already underway.

Sonoma Valley County Sanitation District

In early 2003, the San Francisco Bay Regional Water Control Board (SF Regional Board) adopted a new discharge permit for the Sonoma Valley County Sanitation District ("SVCSD"). At that time, the SF Regional Board also adopted a Cease and Desist Order (CDO) (Order No. R2-2002-0044) that included penalties for zinc violations that occurred from January 2001 through March 2002. The CDO established interim effluent limitations for zinc through March 2005. In April 2005, SVCSD's discharge permit was amended to include new, final effluent limitations for zinc. Staff believes that the new limitations are achievable and that there will not be violations of effluent limitations for zinc in the future. SVCSD's current discharge permit does, however, include several interim effluent limitations that are scheduled to become final effluent limitations from 2007 through 2010. Although a few of these final effluent limitations may become achievable through future permit amendments, site-specific objectives, or basin plan amendments, SVCSD may have difficulty meeting all of the final effluent limitations. It is not possible to predict if this will be a problem for SVCSD in the future.

South Park County Sanitation District

South Park County Sanitation District ("SPCSD") and Sonoma County ("County") entered into a Plan of Action with the North Coast Regional Board ("NC Regional Board") in 1999 to investigate a groundwater plume of halogenated volatile organic compounds ("HVOC's") believed to have leaked from former dry cleaning operations and possibly using sewer pipes as a conduit. The investigation was completed in February 2002 at a cost of approximately \$1,250,000. Currently, the NC Regional Board is focusing on other potentially responsible parties (mainly oil companies) in connection with a petroleum hydrocarbon plume which is comingled with the HVOC plume. The District is working with the NC Regional Board to require other potentially responsible parties to conduct investigations of HVOC source areas on their properties. SPCSD and the County may be held responsible for conducting remediation of the plume. In such event, substantial additional costs may be incurred in connection with the remedial action. In addition, negotiation of a clean-up strategy will result in costs from technical and legal consultants. It is too early to predict the amount or allocation of these costs.

Note L. Commitments and Contingencies (continued)*Pending Litigation, Claims, and Investigation (continued)*South Park County Sanitation District (continued)

In 2004, a property owner sued the City of Santa Rosa, the County of Sonoma, and the South Park County Sanitation District, alleging that each public entity owns and operates sewer lines in the vicinity of plaintiff's property and that the sewer lines have leaked, causing contamination to the plaintiff's property and to the groundwater beneath plaintiff's property. The complaint was filed in May 2004. The plaintiffs subsequently dismissed their lawsuit in January 2005. However, because the site is still contaminated, there is the possibility that plaintiffs may re-file their action against the County and the Sanitation District.

Other Regulatory Matters

The County Sanitation Districts are subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the County Sanitation Districts, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The County Sanitation Districts are also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

Note M. Recent Governmental Accounting Standards

The Governmental Accounting Standard Board ("GASB") has released the following new standards:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued in November 2003. This Statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting for insurance recoveries. GASB No. 42 is effective for financial statements for years beginning after December 15, 2004.

Statement No. 43, *Financial Reporting for Postemployment Benefit (OPEB) Plans Other than Pension Plans* issued in April 2004. This Statement establishes uniform financial reporting standards for OPEB plans focusing on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. GASB No. 43 is effective for financial statements for years beginning after December 15, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other than Pension* issued in June 2004. This Statement establishes standards for the measurement, recognition, and display of Postemployment Benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB No. 45 is effective for financial statements for years beginning after December 15, 2007.

Notes to Basic Financial Statements

Year Ended June 30, 2005

Note M. Recent Governmental Accounting Standards (continued)

Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34* in December 2004. This Statement requires limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2005.

Statement No. 47, *Accounting for Termination Benefits* in June 2005. This Statement established accounting standards for termination benefits, requiring employers to disclose a description of the termination benefit arrangement, cost of termination benefits and significant methods and assumptions used to determine termination benefit liabilities. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement No. 46. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

The impact on the financial statements of the Districts of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

Note N. Subsequent Event

On September 7, 2005, the Water Agency, through the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (series 2005C) for the purpose of refinancing the outstanding 2000 Revenue Bonds in South Park County Sanitation District, and partially refinancing the outstanding 1998 Revenue Bonds in Sonoma Valley. Total amounts and terms are as follows:

District	Interest Rates	Maturity Date	Amount
South Park	2.70% - 5.00%	October 1, 2026	\$ 3,250,000
Sonoma Valley	2.70% - 4.05%	October 1, 2018	10,240,000
			\$ 13,490,000

Annual debt service requirements to maturity for the 2005C series Revenue Bonds are as follows:

Year ending June 30,	Principal	Interest
2006	\$ -	\$ 274,548
2007	725,000	475,071
2008	780,000	454,921
2009	805,000	432,926
2010	820,000	409,356
2011 - 2015	4,535,000	1,617,951
2016 - 2020	4,420,000	723,829
2021 - 2025	950,000	230,156
2026 - 2027	455,000	20,923
Total	\$13,490,000	\$ 4,639,681

Supplementary Information

Sonoma County Sanitation Districts

Statement of Net Assets, by District

June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ -	\$ 84,919	\$ 2,805,519	\$ 11,643,099	\$ 5,661,974	\$ -	\$ 20,195,511
Accounts receivable (net of allowance for uncollectibles of \$37,711)	-	2,440	248,243	775,251	299,269	-	1,325,203
Other receivables	-	-	13,846	-	-	-	13,846
Total current assets	-	87,359	3,067,608	12,418,350	5,961,243	-	21,534,560
Noncurrent assets							
Restricted cash, cash equivalents, and investments:							
Cash - conservation program	-	-	-	2,000,814	-	-	2,000,814
Cash - general obligation bond fund	-	3,648	102,501	4,114	-	-	110,263
Cash - revenue bond fund	-	-	418,763	-	-	-	418,763
Cash with trustee restricted for debt service	-	-	-	1,496,593	130,345	-	1,626,938
Cash with trustee restricted for capital projects	-	-	-	62,684	748,647	-	811,331
Total restricted assets	-	3,648	521,264	3,564,205	878,992	-	4,968,109

Sonoma County Sanitation Districts

Statement of Net Assets, by District (continued)

June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Other receivables	-	-	105,048	-	-	-	105,048
Other assets	-	-	-	265,471	108,962	-	374,433
Capital assets:							
Land	-	-	223,833	3,062,558	-	-	3,286,391
Buildings and improvements	-	1,394,587	38,793,684	71,266,196	7,343,854	-	118,798,321
Machinery and equipment	-	-	-	227,179	-	-	227,179
Construction in progress	-	902	5,036,953	8,588,568	774,053	-	14,400,476
Less accumulated depreciation	-	(554,696)	(15,402,098)	(25,465,303)	(2,672,569)	-	(44,094,666)
Total capital assets (net of accumulated depreciation)	-	840,793	28,652,372	57,679,198	5,445,338	-	92,617,701
Total noncurrent assets	-	844,441	29,278,684	61,508,874	6,433,292	-	98,065,291
Total assets	\$ -	\$ 931,800	\$ 32,346,292	\$ 73,927,224	\$ 12,394,535	\$ -	\$ 119,599,851

Sonoma County Sanitation Districts

Statement of Net Assets, by District (continued)

June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Liabilities							
Current liabilities							
Accounts payable and accrued expenses	\$ -	\$ 4,044	\$ 106,761	\$ 304,657	\$ 20,024	\$ -	\$ 435,486
Due to other governments	-	-	-	38,084	-	-	38,084
Due to other related governments	-	250,000	66,000	-	-	-	316,000
Accrued interest payable	-	-	15,500	-	-	-	15,500
Total current liabilities	-	254,044	188,261	342,741	20,024	-	805,070
Current liabilities payable from restricted assets							
General obligation bonds payable	-	1,000	-	-	-	-	1,000
Revenue bonds payable	-	-	55,000	610,000	85,000	-	750,000
Accrued interest payable	-	-	43,403	372,790	43,088	-	459,281
Total current liabilities payable from restricted assets	-	1,000	98,403	982,790	128,088	-	1,210,281
Total current liabilities	-	255,044	286,664	1,325,531	148,112	-	2,015,351
Noncurrent liabilities							
General obligation bonds payable	-	3,000	1,610,000	145,000	-	-	1,758,000
Revenue bonds payable	-	-	1,185,000	17,251,832	3,150,496	-	21,587,328
Advances from other governments	-	-	3,352,796	392,518	-	-	3,745,314
Advances from other related governments	-	-	152,153	-	-	-	152,153
Total noncurrent liabilities	-	3,000	6,299,949	17,789,350	3,150,496	-	27,242,795
Total liabilities	-	258,044	6,586,613	19,114,881	3,298,608	-	29,258,146

Sonoma County Sanitation Districts

Statement of Net Assets, by District (continued)

June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Net assets							
Invested in capital assets, net of related debt	-	586,793	22,231,423	39,507,235	2,318,804	-	64,644,255
Restricted for conservation program	-	-	-	2,000,814	-	-	2,000,814
Restricted for debt service	-	3,648	477,861	1,127,917	87,257	-	1,696,683
Restricted for capital projects	-	-	-	62,684	748,647	-	811,331
Unrestricted	-	83,315	3,050,395	12,113,693	5,941,219	-	21,188,622
Total net assets	\$ -	\$ 673,756	\$ 25,759,679	\$ 54,812,343	\$ 9,095,927	\$ -	\$ 90,341,705

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets, by District

Year Ended June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Total
Operating revenues						
Flat charges	\$ -	\$ 228,647	\$ 2,539,933	\$ 7,098,611	\$ 2,632,141	\$ 12,499,332
Charges for services	-	7,950	22,735	967,559	32,204	1,030,448
Other	-	50	-	200	94,345	94,595
Total operating revenue	-	236,647	2,562,668	8,066,370	2,758,690	13,624,375
Operating expenses						
Services and supplies	-	325,022	1,729,973	5,026,718	1,657,413	8,739,126
Fiscal agent fees and legal services	-	10,216	3,347	6,211	17,859	37,633
Depreciation and amortization	-	32,997	896,783	2,178,130	145,855	3,253,765
Environmental investigation	-	-	-	-	22,469	22,469
Total operating expenses	-	368,235	2,630,103	7,211,059	1,843,596	12,052,993
Operating income (loss)	-	(131,588)	(67,435)	855,311	915,094	1,571,382
Nonoperating revenues (expenses)						
Investment income	-	1,756	73,418	401,520	151,825	628,519
Interest expense	-	-	(63,230)	(521,957)	(129,937)	(715,124)
Intergovernmental	-	77,812	24	204	-	78,040
Property taxes	-	159	155,704	17,745	-	173,608
Conservation program revenue	-	-	-	228,870	-	228,870
Conservation program expense	-	-	-	(44,411)	-	(44,411)
Other	-	-	-	(26,706)	-	(26,706)
Net nonoperating revenue	-	79,727	165,916	55,265	21,888	322,796

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets, by District (continued)

Year Ended June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Total
Net income (loss) before contributions	-	(51,861)	98,481	910,576	936,982	1,894,178
Connection fees	-	4,540	39,924	1,151,902	5,060	1,201,426
Capital grants	-	-	-	37,500	83,410	120,910
Special item - dissolution of Forestville Sanitation District	(3,862,396)	-	-	-	-	(3,862,396)
Increase (decrease) in net assets	(3,862,396)	(47,321)	138,405	2,099,978	1,025,452	(645,882)
Net assets at beginning of year	3,862,396	721,077	25,621,274	52,712,365	8,070,475	90,987,587
Net assets at end of year	\$ -	\$ 673,756	\$ 25,759,679	\$ 54,812,343	\$ 9,095,927	\$ 90,341,705

Sonoma County Sanitation Districts

Statement of Cash Flows, by District

Year Ended June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Cash flows from operating activities							
Receipts from customers	\$ -	\$ 234,672	\$ 2,552,437	\$ 7,974,857	\$ 2,717,978	\$ -	\$ 13,479,944
Payments for interfund services used	-	(255,643)	(1,396,980)	(3,847,791)	(38,933)	-	(5,539,347)
Payments to suppliers	-	(76,854)	(353,014)	(1,109,493)	(1,647,587)	-	(3,186,948)
	-						
Net cash provided by (used in) operating activities	-	(97,825)	802,443	3,017,573	1,031,458	-	4,753,649
Cash flows from noncapital financing activities							
Taxes	-	159	155,728	17,949	-	-	173,836
Intergovernmental revenue	-	-	27,037	37,500	-	-	64,537
Conservation program	-	-	-	219,154	-	-	219,154
Principal payments - advances	-	-	-	-	(100,000)	-	(100,000)
Principal payments - notes	-	(4,623)	-	-	-	4,623	-
Principal received - notes	-	-	-	-	4,623	(4,623)	-
Net cash provided by (used in) noncapital financing activities	-	(4,464)	182,765	274,603	(95,377)	-	357,527

Sonoma County Sanitation Districts

Statement of Cash Flows, by District (continued)

Year Ended June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Cash flows from capital and related financing activities							
Purchase of capital assets	-	(84)	(2,265,575)	(3,742,455)	(383,327)	-	(6,391,441)
Principal payments - other governments	-	-	-	(38,084)	-	-	(38,084)
Principal payments - bonds	-	(1,000)	(140,000)	(620,000)	(80,000)	-	(841,000)
Principal payments - advances	-	-	(66,000)	-	-	-	(66,000)
Interest paid on capital debt	-	(538)	(149,500)	(899,169)	(174,033)	-	(1,223,240)
Advances from other governments	-	-	3,352,796	-	-	-	3,352,796
Advances from other related governments	-	77,812	-	-	-	-	77,812
Connection fees	-	4,540	51,935	1,296,625	3,060	-	1,356,160
Special item - dissolution of Forestville Sanitation District	(6,032)	-	-	-	-	-	(6,032)
Net cash provided by (used in) capital related financing activities	(6,032)	80,730	783,656	(4,003,083)	(634,300)	-	(3,779,029)
Cash flows from investing activities							
Interest received on pooled cash and investments	-	1,756	73,483	401,520	151,825	-	628,584
Net increase (decrease) in cash and cash equivalents	(6,032)	(19,803)	1,842,347	(309,387)	453,606	-	1,960,731
Cash and cash equivalents at beginning of year	6,032	108,369	1,484,439	15,516,688	6,087,361	-	23,202,889
Cash and cash equivalents at end of year	\$ -	\$ 88,566	\$ 3,326,786	\$ 15,207,301	\$ 6,540,967	\$ -	\$ 25,163,620

Sonoma County Sanitation Districts

Statement of Cash Flows, by District (continued)

Year Ended June 30, 2005

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ -	\$ (131,588)	\$ (67,435)	\$ 855,311	\$ 915,094	\$ -	\$ 1,571,382
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization expense	-	32,997	896,783	2,178,130	145,855	-	3,253,765
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	-	(1,975)	(10,234)	(91,512)	(40,714)	-	(144,435)
Increase (decrease) in accounts payable and accrued expenses	-	2,741	(16,671)	75,644	11,223	-	72,937
Net cash provided by (used in) operating activities	\$ -	\$ (97,825)	\$ 802,443	\$ 3,017,573	\$ 1,031,458	\$ -	\$ 4,753,649
Noncash investing, capital and financing activities:							
Project costs included in accounts payable	\$ -	\$ -	\$ (480,841)	\$ (461,896)	\$ (27,256)	\$ -	\$ (969,993)
Net decrease in fair value of investment in County Treasurer's Pooled cash	\$ -	\$ (207)	\$ (8,114)	\$ (33,289)	\$ (13,810)	\$ -	\$ (55,420)
Dissolution of Forestville Sanitation District	\$ (3,856,364)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,856,364)

Compliance

**Independent Auditors' Report on Internal Control
and on Compliance and Other Matters Over
Financial Reporting Based on Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

County of Sonoma Board of Supervisors
Board of Directors Sonoma Valley County
Sanitation District
Sonoma County Sanitation Districts
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Sanitation Districts** (including Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 12, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Districts'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the **Districts'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, Commission, County of Sonoma, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Local partnership. Global solutions.

Santa Rosa, California
September 12, 2005

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section I. Summary of Auditors' Results*Financial Statements*

Type of auditors' report issued:

unqualified

Internal control over financial reporting:

Material weaknesses identified

_____ yes X noReportable conditions identified not considered
to be material weaknesses_____ yes X no

Noncompliance material to financial statements noted

_____ yes X no**Section II. Financial Statement Findings**

There were no observations noted in last year's report that require current year resolution.

There were no observations noted in the current year's audit.